

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
AUDIT COMMITTEE MEETING

Teleconference/Videoconference

MINUTES OF
April 30, 2020

Thursday, April 30, 2020

ATTENDANCE

Committee Present: Robert Johnson, *chair*
Lorne Bretz
Gayle Harbo
Norman West

Committee Absent: None

Other Trustees Present: Tom Brice

Department of Revenue Staff Present:
Bob Mitchell, Chief Investment Officer
Kayla Wisner, State Comptroller
Pamela Leary, Director, Treasury Division
Scott Jones, Chief Investment Officer
Stephanie Alexander, Board Liaison
Mike Barnhill, Deputy Commissioner
James McKnight, Senior Compliance Officer
Anna MacKinnon
Grant Ficek

Department of Administration Staff Present:
Kevin Worley, CFO, Division of Retirement and Benefits
Ajay Desai, Director, Division of Retirement and Benefits
James Puckett, Manager, Division of Retirement and Benefits
Nimeri Denis
Melanie Helmick
Roberto Aceveda

Others Present:
Stuart Goering, Assistant Attorney General, Department of Law
Paul Erlendson, Callan LLC

Steve Center, Callan LLC
David Kershner, Buck
Scott Young, Buck
Tonya Manning, Buck
Paul Wood, Gabriel Roeder Smith
Melissa Beedle, KPMG
Elizabeth Stuart, KPMG
Richard Ward, Segal

I. CALL TO ORDER

CHAIR ROBERT JOHNSON called the meeting of the AMR Board Audit Committee to order at 8:00 a.m.

II. ROLL CALL

CHAIR JOHNSON, MR. BRETZ, MS. HARBO, and MR. WEST were present at roll call.

III. PUBLIC MEETING NOTICE

STEPHANIE ALEXANDER confirmed that public meeting notice requirements had been met.

IV. A. APPROVAL OF AGENDA

MS. HARBO moved to approve the agenda. MR. WEST seconded the motion. The agenda was approved without objection.

B. APPROVAL OF MINUTES: December 11, 2019

MS. HARBO moved to approve the minutes of the December 11, 2019 meeting. MR. WEST seconded the motion. The minutes were approved without objection.

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS & APPEARANCES – None.

VI. A. Employer Audits

Auditor NIMERI DENIS reviewed the audit report dated March 18, 2020. He explained that there are two sections, one for FY 2019 and one for FY 2020. In 2019 they had 39 audits, 14 of which were completed. Three of those will be evaluated for some issues that were noted. MR. DENIS explained that single stars denote delinquent employers who have not contributed for some time, and double stars indicate that physical audits are needed; also, four more audits had been completed since this report, including the City of Whittier, St. Mary’s School District, City of Sitka, and the City of Valdez School District. He also said that MELANIE HELMICK had met with NEA about TRS and the Social Security enrollment, and also presented at the ALASBO Power Lunch, which was in February for all state employees. MR. DENIS added that through the office of the Social Security administrator, they also educate employers about TRS and the Social Security voting process.

MR. WORLEY noted that they have been doing more “desk audits” to avoid travel, and the process

is going well, though it takes a little more time.

CHAIR JOHNSON asked whether the Division had any response on previous discussions of possibly taking legal action to collect nonpayments or underpayments, and of assessing how much the failure to pay was affecting the unfunded liability; MR. WORLEY answered that they haven't been able to work on that yet, because the health reimbursement arrangement has been a higher priority. However, he noted that the list of delinquent PERS employers was included in the meeting packet.

MS. HARBO asked how active employees of delinquent participants are affected, and if they receive any notice that the payments for them have not been made to the DRB. MR. WORLEY explained that the Department of Law wanted them to develop a process of using PERS termination statutes to do both voluntary and involuntary terminations, so they are going to work through that with the commissioner, and will inform the Audit Committee when they have done so. MS. HARBO pursued the question of what happens to a person who retires if their payments haven't been going in; MR. WORLEY referred to the City of Nenana as an example, which did get behind, and the Division by statute was able to intercept funds going from a state department to a PERS employer. They secured over \$200,000 to apply against Nenana's delinquent payrolls; an individual did retire during that time, and by examining pay stubs they calculated and made him whole after receiving funds from the Department of Commerce. MR. WORLEY noted that a lot of these employers are very small and perhaps shouldn't even be in PERS, so they plan to look at them on a case-by-case basis. He said that part of the process will be to get approval from the Commissioner's office and the Department of Law to contact and notify people whose employers are not paying.

MR. WORLEY went on to explain that the amounts shown on the delinquent employer listing are estimates, because without the actual data, they are extrapolating from the last payroll received.

MR. WEST asked if the estimated contributions are included in the calculations of the potential liabilities of the various plans, and whether the state made an additional contribution based on the estimates; MR. WORLEY said that this is all separate and still not on the books.

B. GASB 68/75 Update for PERS/TRS Defined Benefit Pension and OPEB

MR. WORLEY reviewed the final audited schedules for GASB 68, which is the employer reporting for net pension liability, and GASB 75, which is the allocation of net Other Post Employment Benefit, or OPEB, liabilities. He said that because this is a cost share plan, the net pension liability of PERS and TRS will be allocated to employers for use on their financial statements. The same thing is done with the OPEB, which is the Alaska Retiree Healthcare Trust occupational death and disabilities plans, and the PERS defined contribution retiree major medical plan. These schedules were prepared by Buck, then reviewed by the Division, which creates a report which is then audited by KPMG.

C. FY 2020 Audit Changes

MR. WORLEY stated that the Division of Finance, which is responsible for preparing the State of Alaska's comprehensive annual financial report for the fiscal year ending June 30, is required by statute to issue the CAFR by December 15 of each year. He explained that since the pension and health systems are a component of that, the Division of Finance requests the DRB to have their audits completed and final reports issued to them by October 15th each year. The preparation takes a lot of

time, so they have met with KPMG about doing some of the preliminary work during the spring to relieve the stress closer to the deadline.

D. Compliance Report and Update

JAMES MCKNIGHT gave the annual report on investment compliance. He noted that there are fewer separate fund managers and fewer types of funds because of the changes over the past year, but there are still fixed income, equity, REITs, and opportunistic. He explained that they upload all of the funds that they can into Bloomberg every day, and anything out of the ordinary shows up in the morning; they test many securities and 140 rules per day between Bloomberg and State Street. He showed a summary of all the checks that they ran in 2019, and noted that the number of errors and exceptions have gone down over the last few years. MR. MCKNIGHT commented that there was one Iran compliance violation in which a manager purchased a company that had just come on the list, but then sold it right away when they were notified.

CHAIR JOHNSON asked how they know that they have covered the full field on all transactions; MR. MCKNIGHT said they look at it every day and also have the direct reports from State Street to make sure they don't miss anything.

MR. MCKNIGHT showed a summary of the Commission Recapture Program, showing that the numbers have gone down over the years because they are paying less in commissions, so there is less to rebate; the amount managed internally also contributes to that decline.

MR. MCKNIGHT discussed proxy voting, explaining that they just receive the proxy votes from every manager and keep them for the record, and they receive a statement from every manager stating that they voted in accordance with ARM Board policy, which requires that they vote in the financial best interest of the plan beneficiaries. CHAIR JOHNSON commented that he recalled discussing having a Board review of that policy, and he thinks that should be visited, if it is not already scheduled. MR. BOB MITCHELL noted that when a new manager is hired, their proxy voting policy is evaluated as part of the due diligence policy, and they discuss it with the manager to get an affirmation that their policies are constructed so they vote in the financial best interest of the beneficiaries. He said that annually, each manager gives their proxy voting plans to ARMB staff, along with the actual votes, and the primary check is to make sure that they are actually voting. He also mentioned that they had outsourced the proxy voting activity to ISS, with annual checks. MR. MITCHELL said that to get additional insight may require bringing each manager's proxy voting policy before the Board. CHAIR JOHNSON said that was helpful, but as the Board goes on to respond to various constituent issues and best practices that exist, including ESG considerations, the issues may be entwined, and proxy voting would seem to be one element of assessing those concerns.

MR. WEST asked who had made the Freedom of Information Act request and concerning what; MR. MCKNIGHT replied that he believes it was ISS or one of those other companies that do it every year to gauge the outcomes of proxy voting.

MR. MCKNIGHT showed the proportion of securities held internally now, and noted that they have the ability to lock down securities and make other rules to prevent people from trading in certain

securities, an advantage which gives control they didn't have with external securities.

E. Update Indirect FX Services

KAYLA WISNER gave a verbal update on some items from her presentation on indirect foreign exchange at the December meeting. She said she spoke with the Bank of New York, and got information about two programs, one of which is similar to an indirect service that State Street already provides, and another which applies basis points based on whether the currency is emerging market or developed market. MS. WISNER said that with that information, she was able to apply those basis points to the transactions analyzed and come up with a cost as if they had used Bank of New York for those transactions, and she said that surprisingly, they were comparable, at about 11 basis points of cost each. She reiterated that State Street Global Markets is the division that executes their foreign exchange transactions, which are separate and independent of any services that are provided to clients of State Street, as custodial services in the ARM Board's case. The indirect services are only available to asset owners and their investment managers whose assets are under custody at State Street. Also, managers have discretion when selecting foreign exchange options.

F. Future Audit Committee Topics – None.

G. Further Meeting Schedule

MS. ALEXANDER said that the next meeting of the Audit Committee is scheduled for June 17, and they are still not sure whether it will be in person or by teleconference or videoconference.

VII. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE

None.

VIII. PUBLIC/MEMBER COMMENTS – None.

IX. ADJOURNMENT

MS. HARBO moved to adjourn the meeting. MR. BRETZ seconded the motion. The motion passed without objection.

The meeting was adjourned at 8:45 a.m.

Note: An outside contractor recorded the meeting and prepared the summary minutes. For in-depth discussion and more presentation details, please refer to the recording of the meeting and presentation materials on file at the ARMB office.